

**Globalization and
Regionalisation of Kenya's
Foreign Trade and Production**

**Dorothy McCormick &
Poul Ove Pedersen**
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Contents

Abstract	1
1 Background: The development and importance of intra-African trade	1
2 The development and changing regional pattern of Kenya's export	5
3 Changing commodity structure of Kenya's export	8
4 The development and changing regional pattern of Kenya's import	9
5 The commodity structure of Kenyan imports	14
6 Seven Kenyan enterprises and their export and development strategies	16
7 Conclusion	24
Appendix	29
References	39

Abstract

While the structural adjustment policies so far have had limited success in expanding Africa's foreign trade, they have led to some increases in the trade between the African countries, though this is still small and unequally spread. Kenya is one of the countries that has experienced the most dramatic regionalisation of its export market. The purpose of the paper is to describe this process of regionalisation.

First the paper discusses the conditions for and small, but increasing, role of the intra-African trade for African export. Secondly the changing pattern of Kenyan trade is investigated. Finally, in order to understand these changes, we analyse the shifting patterns of competition and production strategies found in a selection of industrial sectors.

1 Background: The development and importance of intra-African trade

Most of the globalization literature laments that African exports make up a very small and declining share of the world trade, and sees this as a sign of Africa being marginalised from the process of globalization. However, relative to GDP African exports are not especially low compared to other world regions, and since 1994 they have even been growing, so the problem may not so much be lack of export as lack of economic development in general. But even if Africa has not been marginalised quantitatively from world trade, African foreign trade has been restructuring under impact of globalization. Most importantly the role of intra-African regional trade has increased.

African export has traditionally consisted of agricultural or mineral raw materials going to Europe or (to lesser extent) to North America, while imports have been manufactured consumer goods and machinery from Europe or North America. Recorded trade among the African countries has been small. In 1980 it was responsible for only 3.1% of the African export (see Table 1).

It has generally been argued that the reason for the low intra-African trade is that African countries, on the one hand, produce raw materials with no market in the neighbouring countries and, on the other hand, produce the same basic consumer goods as their neighbours, so that there is no basis for trade.¹

Table 1. Distribution on commodity groups of the trade of the developing African countries with the World, South Africa and the other developing African countries 1980, 1990 and 1995

	The World			South Africa			Developing African Countries		
	1980	1990	1995	1980	1990	1995	1980	1990	1995
Exports									
All food items	10.6	13.5	16.0	32.5	23.9	27.3	25.9	21.7	19.1
Agricultural raw materials	3.1	4.3	5.4	14.2	8.8	13.6	3.7	10.1	11.9
Ores and minerals	5.9	5.0	5.4	20.9	8.4	7.3	5.6	4.0	3.4
Fuels and lubricants	75.6	61.3	53.5	0.0	0.2	1.9	40.9	30.2	31.6
Manufactured goods	4.0	15.5	19.1	32.1	57.2	49.4	18.9	32.8	31.9
Total	100	100	100	100	100	100	100	100	100
Total value (mill. US\$)	94,942	81,022	82,322	302	523	633	2,978	4,763	5,818
Pct. of Total exports of developing Africa to the World	100	100	100	0.3	0.6	0.8	3.1	5.9	7.1
Imports									
All food items	15.8	16.1	17.0	22.0	15.4	14.6	25.9	21.7	19.1
Agricultural raw materials	2.0	3.2	3.0	3.4	1.7	1.1	3.7	10.1	11.9
Ores and minerals	1.5	2.2	1.7	3.9	4.2	1.9	5.6	4.0	3.4
Fuels and lubricants	9.3	6.8	5.9	0.0	1.0	11.1	40.9	30.2	31.6
Manufactured goods	69.3	70.2	70.8	69.5	77.7	71.3	18.9	32.8	31.9
Total value (mill. US\$)	84,367	81,252	91,835	1,408	2,162	3,520	2,978	4,763	5,818
Total	100	100	100	100	100	100	100	100	100
Pct of total imports of developing Africa from the World	100	100	100	1.7	2.7	3.8	3.5	5.9	6.3

Sources: UNCTAD (1999)

This of course is true, but at the same time the import-substitution policies which have dominated the African countries in most of the period since independence did little to promote intra-African trade. Over-valued currencies generally made export unprofitable for the enterprises. Their main incentive to export was to earn hard foreign currency, but as most African countries had non-convertible currencies there was nothing to be gained from trade with the neighbours.

In addition, the agricultural pricing policies tended to be a hindrance to intra-African trade. Agricultural producer prices were determined by a combination of producer taxation and consumer subsidies, rather than by production costs and the market. Trade therefore had to be monopolised by the parastatals, and private border trade was generally restricted and treated as illegal smuggling to exploit the national differences in taxation and subsidies. As a result it was often not recorded (Ellis and MacGaffey 1996, Meagher 1997 and Ackello-Ogutu and Echessah 1997).

As a result, the numerous attempts since independence to increase intra-African trade through formation of trade groupings, such as ECOWAS in West Africa, SADC in Southern Africa and PTA in Eastern and Southern Africa, appear to have had very limited effect. Thus intra-group trade as a percent of total export of the group within the most important trade groupings is neither much bigger, nor much more rapidly growing than trade among the developing African countries as a whole (see Table 2).

Table 2. Intra-group trade of different African trade groups as pct. of total exports of the trade groups

Year	Total developing Africa	ECOWAS	COMESA	SADC
1980	3.1	10.2	12.1	0.5
1985		5.3	5.5	1.5
1990	5.9	7.9	7.6	2.8
1995	7.1	11.4	9.3	7.9

Source: UNCTAD (1999)

However, since the late 1980s trade among the African countries has been growing, though it is still not large. From 3.1% in 1980 it grew to 5.9% in 1992, and to 7.1% in 1995.² For two reasons these figures underestimate the importance of the intra-African trade. First, there is a considerable

but unknown unrecorded trade especially between neighbouring countries; secondly the figure is low because one country, Nigeria, which is responsible for almost a third of all African export, only sells 3.1% of its export to Africa.³

This is at least partly due to the structural adjustment policies. One of the most important positive effects of structural adjustment may in the long run prove to be that it has opened the borders between the African countries and prepared for a changing balance between the global and the regional markets. The devaluation and freeing of African currencies have made it possible to earn foreign currency through trade with the neighbouring countries, and made many of the bureaucratic institutions of the trading groups superfluous (see e.g. Asante 1997). The liberalisation of trade in agricultural produce and the elimination or at least reduction of subsidies have legalised border trade or at least made it more acceptable.

At the same time, it is increasingly recognised that although the African countries tend to produce the same as their neighbours, there are often seasonal and climatic differences in the production cycles which give rise to considerable unused opportunities for regional trade in food, and possibilities for increased food security (Park 1993 and Weeks 1996). For manufactured products there may also be better opportunities for regional trade than for export out of the region because high transport costs may offer regional producers some protection from outside imports, at the same time as product qualities and market structures tend to be similar.

The intra-African trade therefore tends to be more important than indicated by its size because a relatively large part of it consists of manufactured goods. While manufactured goods in 1995 only made up 19.1% of the total export from the developing African countries, nearly one third of the trade among the developing African countries consisted of manufactured goods (see Table 1). However, even this appears to be an underestimation of the importance of manufactured goods in intra-African trade, because it does not comprise processed foods and beverages, which make up a larger share of the agricultural export to other African countries than to the rest of the world.

During the 1990s there has been a renewed interest in the more formal regional integration and trade groupings, such as ECOWAS, SADC and COMESA (before 1994 PTA), but now with much more focus on institutional and industrial development and private sector participation, than was the case in the old government-to-government trade agreements (see e.g. Asante 1997 and Lyakurwa 1996).

However, the importance of manufacturing goods in the intra-African trade means that especially the more industrialised countries benefit from the trade opportunities. Therefore the intra-

African trade is not equally distributed among the African countries. In 1991 11 of the 44 countries in Sub-Saharan Africa had more than 15% of its export to other African countries (Amjadi, Reinke and Yeats 1996). Globalization and structural adjustment seems to support a process of informal regionalisation where some countries develop into regional centres. Kenya is one of the countries which have experienced the most rapid increase in its export to other African countries, and we shall in the following section look in more detail on the changing pattern of Kenyan foreign trade. (For more details on the policy framework and the process of Kenyan trade liberalisation, see McCormick 1999a and Mwega and Muga 1999.)

The development of Kenya/Nairobi as regional centre is a result of the strategies of Kenyan firms and their response to international/ global pressures. In order to understand the development processes we shall therefore in the last part of the paper investigate the strategies of firms in selected sectors of the Kenyan economy.

2 The development and changing regional pattern of Kenya's export

Kenya's export has been growing both in quantum and value terms. Between 1986 and 1992 the quantum index (1982=100) grew slowly from 114 to 126 or 1.7% p.a., and between 1992 and 1996 more rapidly from 126 to 200 or 12.2% p.a., but then dropped again to 174 in 1997 (see Table 3). As shown clearly in Figure 1, the quantum index and index of dollar values have coincided almost completely since 1994, while export values in local currency rose sharply as a result of devaluation of the Kenya shilling.

During the 1980s about half of the export went to western Europe, but since 1990 Europe's share of the Kenyan export has declined to less than a third (see Table 3). Also the share of export going to North America has declined from about 10% in 1986 to 3.3% in 1998. Meanwhile Kenya's export to the other African countries has increased from 21% in 1986 to 47% in the mid-1990s. Since 1994 Africa's share of the Kenyan export has been larger than the share going to Europe. In dollar-terms, between 1993 and 1998, the export to Europe grew by 41% while 1998 exports to Africa were two and a half times their 1993 level. Most of the increase in Kenyan export has, therefore, been due to the African market.

Table 3. Distribution of Kenyan exports on World regions, 1986-97. Pct.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	50.5	46.7	53.3	48.3	49.0	47.7	45.5	40.0	35.4	34.2	34.1	33.8	30.7
Eastern Europe	1.1	1.2	0.7	2.0	1.6	0.2	0.1	0.2	0.2	0.1	0.3	0.3	0.4
USA and Canada	9.7	6.4	5.9	5.9	4.3	4.2	4.6	4.6	4.2	3.5	3.2	3.3	3.3
Africa	20.7	26.4	25.0	21.6	21.2	23.0	28.3	34.2	43.5	46.8	46.7	46.0	47.3
Middle East	4.4	4.0	2.4	2.8	3.9	2.9	3.1	2.9	1.8	2.5	3.3	3.2	4.0
Far East and Australia	9.7	9.9	7.5	12.6	12.7	10.9	14.8	12.9	11.7	11.4	10.3	10.4	13.1
All other *	3.9	5.4	5.2	6.6	7.3	11.1	3.6	5.2	3.2	1.5	2.0	2.9	1.6
Total pct	100.0	10.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Mill. K£	958.0	753.4	917.7	999.8	1232.4	1611.2	1618.1	3625.2	4170.7	4656.2	5910.0	6022.3	6059.0
Total Mill. US\$	1224.8	912.4	986.8	925.7	1023.5	1147.8	893.6	1063.7	1860.4	1681.3	2148.3	1921.8	1957.5
Total quantum index (1982 = 100)	114	110	116	115	122	126	126	148	167	175	200	174	173

* Primarily Latin America and sales to shipping and airlines and export processing zones

Source: Economic Survey, Republic of Kenya. Different years.

Table 4. Kenyan exports to Africa distributed on countries, 1986-97. Mill. K£

Export to	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Uganda	72.6	69.7	83.7	65.9	64.0	107.3	122.8	326.0	544.3	766.7	953.1	909.8	973.3
Tanzania	27.3	19.6	24.3	27.5	32.3	54.1	81.0	270.5	454.8	631.0	758.3	823.0	895.8
Rwanda	25.2	23.8	23.4	16.9	18.3	29.3	22.5	68.2	249.9	161.3	117.2	189.0	151.9
Zaire/Congo	11.4	11.6	10.7	6.7	6.4	16.3	13.1	28.8	68.8	79.3	104.4	123.6	100.7
Ethiopia	6.9	8.9	6.4	9.0	11.8	14.2	18.6	84.5	103.7	168.5	116.4	108.6	76.8
Somalia	6.8	7.8	7.0	8.0	23.4	17.6	49.1	117.5	125.9	94.4	117.1	100.0	92.1
Egypt	5.0	6.9	10.0	10.8	27.2	46.2	66.9	156.5	126.5	149.0	214.8	153.1	184.7
Sudan	21.4	22.2	21.8	21.0	20.1	28.8	20.4	82.3	72.6	61.8	71.0	98.6	149.5
Zimbabwe	5.5	5.8	9.3	10.7	12.6	68.0	14.1	11.2	12.6	6.6	16.5	26.0	27.2
South Africa	-	-	-	-	-	-	-	-	21.4	15.3	119.2	53.8	46.9
Africa total	211.4	219.7	243.9	227.1	269.8	380.3	469.5	1274.5	1905.1	2376.8	2761.0	2771.5	2863.2
PTA	163.3	171.4	189.1	157.1	198.9	272.0	351.3	969.5	-	-	-	-	-
COMESA	-	-	-	-	-	-	-	954.9	1591.4	1948.5	2249.6	2397.7	2667.9*
East African Community, pct. of total	47.2	40.6	44.3	41.1	35.7	42.4	43.4	46.8	52.3	58.8	62.0	62.5	62.1
Rwanda, Congo, Ethiopia, Somalia, Sudan and Egypt, pct. of total	36.3	36.9	32.5	31.9	39.7	40.1	40.6	42.2	39.1	30.0	26.8	27.9	30.0
Rest of Africa, pct. of total	16.5	22.5	23.2	27.0	24.1	17.5	16.0	11.0	8.6	11.2	11.2	9.6	7.9
PTA/COMESA, pct. of total	77.2	78.0	77.6	69.1	73.7	71.5	74.8	76.0/74.9	83.4	82.0	81.5	86.5	93.2*

* This figure includes Egypt, which joined COMESA in 1998.

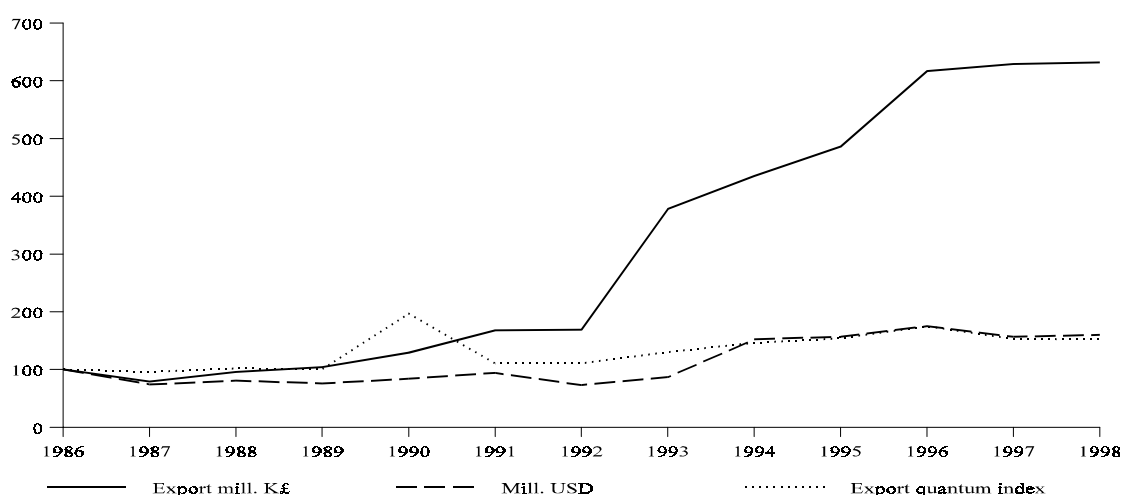


Figure 1. The development of Kenya's export 1986-98 measured in K£, US\$ and quantum index (1986 = 100).

In Africa, Tanzania and Uganda are the most important markets for Kenyan products. Between 1986 and 1998 Tanzania and Uganda increased their share of Kenya's total export from 10% to 31%. During the 1980s they represented about 40% of the African market, but during the 1990s this has increased to more than 60% (see Table 4). Other important markets are found in other neighbouring or near-by countries, such as Rwanda, Congo-Kinshasa, Ethiopia, Somalia, Sudan and Egypt, which together represent about 26% of Kenya's African market. The more industrial African countries, such as South Africa and Zimbabwe, represent relatively small markets for Kenyan goods.

The COMESA countries buy an increasing share of Kenya's export, but this is primarily due to the increases in export to Tanzania and Uganda. On the other hand Kenya's export to Tanzania and Uganda seems to be stagnating in the mid-1990s, probably due to increased competition from South African export to Kenya's markets.

3 Changing commodity structure of Kenya's export

Kenya's export is dominated by food and beverages, processed and unprocessed, which during the late 1980s made up about 60% of the total. About 20% consisted of non-food industrial

supplies, while 11-13% was fuel and lubricants. Only 1% was machinery and transport equipment, while 5-6% was non-food consumer goods (see Table 5). This has been changing during the 1990s. The export of consumer goods has more than doubled to 14%, and the export of industrial non-food supplies rose to nearly 30% in 1994, but then dropped back to 18% in 1998. The export of food and beverages decreased to 51-52% in the mid 1990s, but has since risen to 57%

Altogether the share of manufactured goods (except processed food) increased from 12% in 1986 to 31% in 1995. Most of this increase in manufactured export is due to the increased export to other African countries. We do not have a sectoral breakdown for the total export to Africa. However, data for the export to Tanzania and Uganda, which represents about 60% of the total export to Africa, show that about 60% of the export consists of non-food, manufactured goods (see Table 5). Since manufactured goods make up almost as large a share of Kenya's unrecorded border export as it does of the recorded, we can probably safely conclude that non-food manufactures constitute over half of Kenya's exports to her neighbours (Ackello-Ogututu and Echessah (1997). In addition to this, a considerable share of the food export to Tanzania and Uganda consists of processed products.

4 The development and changing regional pattern of Kenya's import

Kenya's import tended to stagnate during the 1980s. The quantum index with base in 1982 had only grown to 107 in 1992 (though with a peak at 125 in 1989). However, after trade liberalisation it has grown rapidly from 107 in 1992 to 179 in 1998 or 9% p.a. (see Figure 2 and Table 6).

Kenya's import has during the 1990s tended to be 40-60% larger than the export. This however represents a reduction in the balance of trade since the second half of the 1980s when imports were double exports. This trade deficit is partly paid for by a net export of services, especially tourism and transport.

Traditionally more than half the Kenyan imports came from Europe, but during the 1990s Europe's contribution to Kenya's import declined to a third. The Far East increased its share of the import from about 20% to 24%, but most importantly the share of Kenya's import coming from Africa increased from 3% to 9-15%. Still Kenya buys much less in Africa than it sells.

Table 5. Sectoral distribution of Kenya's export. Total and to Tanzania and Uganda, pct.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Food and beverages	67.5	60.0	59.5	59.8	60.4	53.3	54.4	54.8	51.5	51.1	52.9	53.7	57.4
Industrial Supplies/non-food	15.3	19.5	21.2	22.0	19.9	20.9	21.8	24.2	29.4	26.9	26.1	22.4	18.3
Fuels and lubricants	11.2	13.4	12.9	11.5	12.2	17.4	14.4	9.8	6.5	5.3	6.6	9.0	9.1
Machinery and other capital equipment	0.4	0.5	0.6	0.7	0.6	0.7	0.8	0.7	0.9	1.4	0.9	0.6	0.9
Transport equipment	0.3	0.6	0.6	0.5	0.2	0.3	0.5	0.8	1.1	0.5	0.5	0.4	0.6
Consumer goods	5.2	5.9	5.2	5.7	6.7	7.4	8.1	9.8	13.6	14.8	13.1	13.9	13.7
Goods not elsewhere specified	0.0	0.0	0.0	0.0	0.1	0.1	-	-	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
% Manufactured goods (non-food)*:													
Total exports	11.9	14.4	14.8	16.9	16.8	23.4	25.1	25.4	32.3	30.5			
Export to Tanzania							66.2	59.1	59.6	63.5	62.5	56.2	
Export to Uganda								70.2	77.6	59.8	55.5		

* Manufactured goods here consist of chemicals, manufactured goods, machinery and other capital equipment, transport equipment, and manufactured articles.

Source: Economic Surveys, Republic of Kenya (different years) and unpublished material from Central Bureau of Statistics, Nairobi.

Table 6. Distribution of Kenyan imports on World regions 1986-97. Pct.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Western Europe	52.8	48.6	53.3	50.6	50.4	46.2	37.9	38.0	37.4	43.2	39.8	33.7	34.1
Eastern Europe	1.4	0.7	1.1	1.1	0.7	0.9	0.6	0.8	1.1	0,9	1.2	1.2	1.4
USA and Canada	5.4	7.8	.5.5	7.6	5.1	5.9	9.0	6.6	7.1	4.6	6.3	8.2	9.1
Africa	2.8	3.0	3.0	3.2	3.0	3.0	3.2	2.4	13.7	9.0	9.6	15.1	8.6
Middle East	17.0	19.6	14.4	15.6	20.6	20.0	21.8	22.8	15.4	13.0	16.3	17.4	18.1
Far East and Australia	19.9	19.6	22.4	21.3	18.2	22.6	22.9	18.8	24.4	27.2	25.6	22.8	24.3
All other*	0.7	0.7	0.4	0.4	2.0	1.4	4.6	10.6	0.9	2.1	1.2	1.6	4.4
Total pct	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total, Mill. K£	1337.9	1430.9	1765.1	2239.0	2545.6	2645.9	2954.9	5056.4	5754.0	7758.4	8424.3	9533.7	9889.4
Total US\$	1710.5	1732.9	1898.1	2073.1	2114.0	1885.0	1631.8	1483.7	2566.6	2801.5	3062.3	3042.3	3295.0
Total quantum index (1982 = 100)	101	106	119	125	119	111	107	116	144	168	167	177	179

* Primarily Latin America

Source: Economic Survey, Republic of Kenya, Different years.

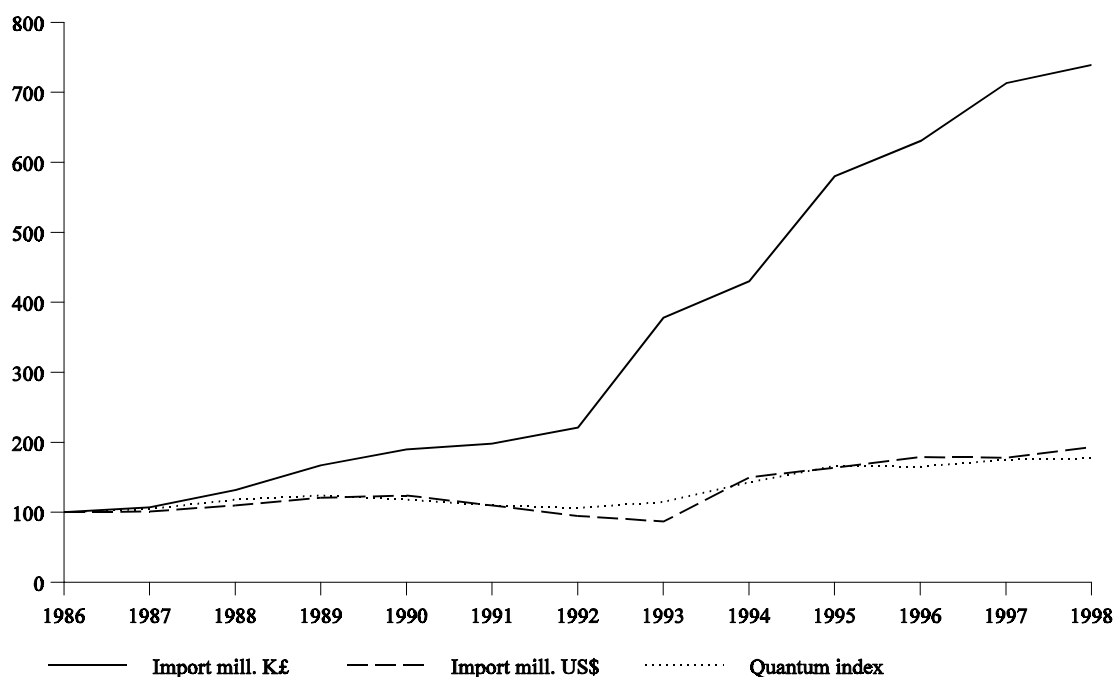


Figure 2. The development of Kenya's import 1986-98 measured in K£, US\$ and quantum index (1986 = 100).

A very large part of the growing imports from Africa is due to the opening for trade with South Africa. Since South Africa entered the market in 1994 it has supplied about 80% of Kenya's import from Africa (see Table 7). Tanzania and Uganda, which buy a large share of Kenya's export, supply a much smaller share of the official import.⁴ From 12% in 1986 it grew to 34% in 1993, but then dropped to 5-6% when South Africa entered the market. Even without South Africa, the East African Community's share of the import from Africa has decreased since from 40% in 1995 to only 19% in 1997. Other African suppliers of Kenya's import are some of the more industrialised countries such as Zimbabwe, Zambia and Egypt. The large increase in African imports in 1997 is due to broadening the number of African trade partners. But apart from South Africa most of these are within COMESA.

One of the reasons for the growing imports from South Africa is that the South African Rand has devalued relative to the Kenyan Shilling, while the Kenyan Shilling has been fairly stable relative to the US \$. This has tended to make imports from South Africa cheaper than imports from Europe and the USA (see Figure 3).

Table 7. Kenyan imports from Africa, distributed on countries. 1986-97. Mill. K£

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Uganda	2.2	0.9	1.3	1.1	1.3	2.7	7.8	16.0	9.3	8.0	1.5	23.4	3.0
Tanzania	2.2	3.4	6.0	13.3	12.5	11.3	14.4	24.4	54.5	31.1	46.4	43.2	30.5
Zimbabwe	7.5	11.0	16.3	26.9	6.8	19.5	25.7	41.6	64.4	11.3	13.8	164.8	25.8
South Africa	-	-	-	-	-	-	-	-	621.6	601.4	638.6	1087.7	709.9
Total Africa	36.9	43.2	52.8	73.2	75.7	79.0	94.1	121.6	790.9	701.5	804.9	1438.1	853.4
PTA	34.9	37.6	49.4	59.7	69.9	57.7	81.2	114.2	-	-	-	-	-
COMESA	-	-	-	-	-	-	-	117.5	145.2	74.4	87.6	326.3	125.2*
East African Community (EAC), pct. of total	11.8	10.1	13.8	19.6	18.3	17.6	23.6	33.7	8.1	5.6	5.9	6.0	3.9
EAC in pct. of Africa	-	-	-	-	-	-	-	-	21.4	14.3	20.7	24.4	16.8
South Africa, pct. of total	-	-	-	-	-	-	-	-	78.6	85.7	79.3	75.6	83.2
PTA/COMESA, pct. of Africa	94.7	86.9	93.5	81.6	92.0	73.0	86.3	96.6/ 93.4	18.4	10.6	10.9	22.7	14.7*

Source: Economic survey, Republic of Kenya. Different years.

* This figure includes Egypt, which joined COMESA in 1998.

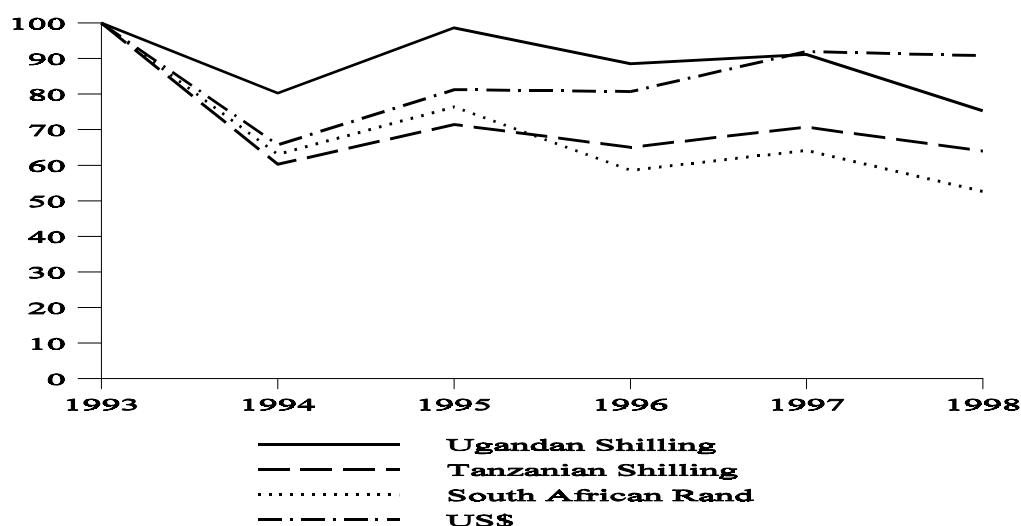


Figure 3. Indices (1993 = 100) for the exchange rate between Kenya Sh and Tanzania Sh, Uganda Sh, South African Rand and US\$.

5 The commodity structure of Kenyan imports

The most important groups of imports to Kenya are, on the one hand, industrial non-food supplies, which now represents over one third of the imports and, on the other, machinery and other capital and transport equipment, which together represent another third (see Table 8). The importance of industrial supplies has increased from 30-35% in the late 1980s, while the importance of machinery etc. has decreased from around 38%. Food and beverages now contribute with 6-7%, but they have been swinging between 5 and 10%. Fuel and lubricants now make up about 16% of the import, but have ranged between 13 and 24%. Finally manufactured consumer goods contribute about 6-7% of the imports, increasing from 4-5% in the mid-1980s.

Table 8. Sectoral distribution of Kenya's imports.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Food and beverages	8.7	6.9	5.7	6.3	7.0	4.5	7.6	6.2	10.0	4.5	7.7	6.6	8.6
Industrial Supplies (non-food)	30.5	32.8	36.4	33.9	31.9	37.6	37.6	38.0	39.4	39.4	36.6	39.8	33.8
Fuel and lubricants	17.8	19.7	13.9	15.5	19.2	18.7	21.2	24.8	16.2	13.0	16.1	15.5	16.1
Machinery and other capital equipment	19.0	22.3	23.5	21.3	24.9	23.0	20.3	14.6	15.4	19.3	18.2	16.9	17.6
Transport equipment	19.4	13.3	15.1	17.6	12.4	11.1	8.1	9.1	12.3	17.0	14.4	14.4	15.7
Consumer goods	4.5	4.9	5.3	5.2	4.3	5.0	5.1	7.1	6.7	6.9	6.8	6.4	7.9
Goods not elsewhere specified	0.1	0.0	0.1	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.4	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Survey, Republic of Kenya. Different years.

Altogether manufactured goods (except processed foods and beverages) now make up around 60% of the Kenyan imports. However, before 1992 the percentage was even higher (70-75%). Underlying this shift appears to be Kenya's increased imports of unprocessed industrial supplies and a drop in the relative importance of machinery and capital equipment. Between 1990 and 1993, imports of machinery and capital equipment dropped not only in percentage terms, but absolutely, and did not regain their 1990 level until 1995. One reason for this is no doubt the abrupt shift from very low and even negative real interest rates to real lending rates in excess of 20% in 1994 and 1995 (Wagacha and Ngugi 1999). This meant that only firms that could finance the acquisition of new machinery outside of the banking system would be able to buy.

Although we do not have data for the sectoral distribution of Kenya's import from the African countries, it is likely that a large share of the imports from the African countries (apart from South Africa and Zimbabwe) consists of little or unprocessed industrial supplies. The data that we have for Kenyan imports from Tanzania and Uganda since 1993 tend to support this as they show that 75-90% of the imports from these two countries consists of little or unprocessed food or industrial supplies. Although the opening up for imports from the African countries thus seem to have increased the opportunities for Kenyan industries to import raw materials, the amounts are still very limited.

6 Seven Kenyan enterprises and their export and development strategies

The seven enterprises

The discussion thus far has focused on broad trends supported by macro data. In order to see how individual firms have responded to changes in the Kenyan and world markets, we have interviewed the seven companies listed in Table 9.

Three of the companies are consumer goods industries. Two of these mainly supply the Kenyan market (footwear and health and baby products) while the third is an export industry (fish). Two are intermediate goods producers primarily serving the Kenyan market (cement and Paper). The last two are machinery suppliers serving industries on both the Kenyan and the larger East African market with mostly imported machinery (compressors and packaging and packaging machinery). Four of the enterprises are subsidiaries of multinationals (footwear, health products and machinery), two (the most capital intensive) are jointly owned by the Kenyan Government and private capital (cement and paper), and one is a private company (fish). Four are typical

import substitution industries (cement, paper, footwear, and health products), one is an export industry (fish) and two are import based (machinery). All seven have a long history of operations in Kenya that predates the current round of market liberalisation.

Table 9: Seven Kenyan enterprises

Company	Ownership/ Affiliation	Industry	Year Estab- lished in Kenya
<i>Consumer goods</i>			
Johnson & Johnson	Subsidiary of US-based multinational	Health and baby products	1969
Bata Shoe	Subsidiary of Canadian multinational	Footwear	1935
Samaki Industries	PLC/ Kenyan investors	Fish	1965
<i>Intermediate goods</i>			
East African Portland Cement	Kenya Government and private investors	Cement	1933
Pan African Paper	Kenya Government, IFC, and Birla Group of Industries (India)	Paper	1972
<i>Machinery</i>			
Atlas Copco	PLC affiliated with Swedish multinational	Machinery	1936
Tetra Pak	Branch of Swedish PLC	Packaging	1956

Johnson & Johnson (Kenya) Ltd. is a subsidiary of Johnson & Johnson, the large US-based pharmaceutical company. Johnson & Johnson began its operations in Kenya in 1969 to serve the East African market. It produced baby products, sanitary towels, and other health and hygiene products using imported inputs and technology and had around 80 employees. In the mid 1990s

the company began to regionalise internationally, reducing the number of production sites and reorganising production to allow for greater specialisation. As a result the company ceased production in Kenya in 1996. Since then Johnson & Johnson has sourced its products for the Kenyan market mainly from Zimbabwe and South Africa. In June 1999, the entire distribution operation was turned over to an independent marketing firm.

Bata Shoe Company (Kenya) Ltd. is a subsidiary of a Toronto based multinational, Bata Shoe Organisation, which is the world's largest manufacturer and retailer of footwear. Bata Kenya was established in Mombasa in 1935 to serve the East African market with rubber and canvas shoes. In the early 1940s, production was moved to the present location near Nairobi, where the manufacturing process became fully integrated, encompassing tanning and production of rubber soles as well as shoe assembly. It therefore only buys raw material, especially raw hides which are partly imported from the other East African countries. It produces the full line of shoe for the whole family, and it is the largest shoe manufacturer in Kenya supplying about half of the Kenyan market. Like many other Kenyan companies Bata lost its export market when the East African Community broke up in the late 1970s, but this was partly made up for by the Kenyan market which continued to grow during the 1980s. However, from the end of the 1980s the Kenyan shoe market stagnated and after 1993/4 when import liberalisation allowed not only the entry of new shoes, but massive importation of second-hand shoes, it dropped by a third. The company has responded by adopting a number of cost-cutting measures (such as reduction of their storage from seven to one month consumption and out sourcing of their transport) which have been made possible by trade liberalisation, and by establishing a stronger presence in the Tanzanian market (three wholesale depots and a retail shop have been established in Tanzania). However, the company has not attempted any more thorough rationalisation or restructuring of its core activities in the form of reduction of its very broad product line or outsourcing. Nor are there plans for an inter-African restructuring between Bata's different African factories, because "the African markets are still too uncertain to make this possible."

Samaki Industries is a Kenyan company, founded in 1965 to process Nile perch from Lake Victoria into frozen fillets. In the 1980s the company entered the export market, selling mainly in Europe, but with smaller amounts going to North America, Australia, Israel, and Japan. The company enjoyed rapidly growing sales in the 1980s and early 1990s as a result of nearly insatiable demand for fish on the world market. It also operates a smaller plant in Musoma, Tanzania, and has recently built a new, but still not operational, plant in Kisumu.

Quality directives issued by the European Union in the early 1990s were largely ignored by the East African governments and the industry. Samaki was ahead of most. By utilising two plants, one in Tanzania and another in Nairobi, it was able to reach high quality standards. By 1997 the company had gained ISO 9002 certification and was following the industry's HACCP (Hazard Analysis Critical Control Point) analysis system. It was also completing a new factory designed around the EU's processing standards, and was considering introducing new fish products. Then the trouble began. In January 1997, a death in Spain, attributed to salmonella poisoning from East African fish, resulted in the first of three bans on imports of fresh water fish by the European Union. All producers were affected by the ban, regardless of their individual processing standards. The ban forced changes on the industry, both in the handling of fish at the beaches and its processing in the factories. Nevertheless, a cholera epidemic in 1998 and a poisoning scare in early 1999 led to two further bans. By October 1999, Samaki had laid off 80% of its workforce while it awaited the report of the latest EU inspection team which had visited the Lake three months previously. The company was investigating alternative markets, but a spokesperson said that this was, at best, a stopgap measure. In the long run, he believes, all importing countries will expect conformity to standards similar to those of the EU.

East African Portland Cement (EAPC) is the smaller of two cement producers in Kenya. The company began in 1933 as a partnership between the three main cement distributors in East Africa and two British manufacturers. The Kenya Government bought 51% of EAPC's share holdings in 1971 and has retained a controlling interest in the company. Inputs, except for fuel, which is imported and heavily taxed, are locally sourced. The company supplies about one fourth of the domestic market; 60% of its sales are in Nairobi and environs and it does not export. By the mid 1980s price controls in Kenya made it impossible for EAPC to operate profitably on its old, fuel-intensive wet-process technology. With assistance from the Japanese Government, the production facilities were completely renovated 1994-96, but it is apparently still not operating optimally. The company also sought and obtained an exemption from the State Corporations Act to give it greater autonomy and flexibility in decision-making. The other Kenyan cement producer (Bamburi) has a considerable export both to Uganda and Tanzania and to countries along the Indian Ocean rim. In total about a fourth of the Kenyan cement production is exported. Imports have traditionally been negligible (less than ½ %). However, devaluation and economic crisis in South East Asia appear since 1998 to have led to an increased import, from e.g. Indonesia, sufficient to force Kenyan producers to reduce their prices by 11% in early 1999.

PanAfrican Paper Mills (E.A.) Ltd. is the only full-scale paper mill in Kenya. It was established in 1972 in Western Kenya as a parastatal. Today its main investors are the Kenya Government

and the Birla Group of Industries, a large Indian multinational. Wood, its main input, is locally sourced from government forests, but like EAPC, the company has a production cost structure that is very sensitive to the price of fuel. PanAfrican Paper produces a wide range of paper types. Nearly 90% of its output is sold on the domestic market. However, as a result of market liberalisation the company faces growing competition from imported paper (from e.g. South Africa, Finland, Sweden and Indonesia), and publishers are increasingly using low-cost printing facilities in places like Mauritius. Despite an expanding demand for paper, PanAfrican Paper has difficulty meeting this competition. Production costs are high, in part because the mill today is small by today's international standards and also because they are using only half of their existing capacity. The main strategy for coping with this challenge has been to lobby government, thus far unsuccessfully, for reductions in fuel tariffs. Apparently they have no plans for specialising in a more limited range of paper products in order to increase efficiency, but think that they "should produce what the Kenyan market demands".

Atlas Copco Kenya is a private limited company incorporated in Kenya in 1936. It is part of the Atlas Copco group, a large Swedish multinational that produces compressors and generators for construction, mining, and industrial equipment. The company in Kenya is a sales and service organisation. It has never manufactured in Kenya, but imports from its own factories elsewhere. Atlas Copco Kenya was originally founded to serve the East African market, but when the Tanzanian, Ugandan, and Ethiopian economies collapsed in the 1970s and the East African Community broke up in 1977, the company was forced to concentrate on the then growing Kenyan market. During the 1980s the company upgraded its staff in a conscious strategy to supplement its sales effort with services aimed at securing an optimal use of its machinery and forging long-term relations with customers. During the 1990s, when growth in Kenya slowed, Atlas Copco expanded its activities into more and more countries in the East Africa region while at the same time continuing its emphasis on customer service.

Tetra Pak Kenya is a branch of a privately owned multinational based in Sweden that offers comprehensive processing, packaging, and distribution systems to producers of liquid foods. The company began operations in Kenya as part of a major donor financed upgrading of Kenya Cooperative Creameries (KCC) in 1956. For more than 25 years KCC was Tetra Pak Kenya's main customer, accounting for over 98% of its market. Liberalisation of the milk market in the early 1990s, however, led to a gradual but large decrease in KCC's milk intake from about 350 million litres a year in the years before 1991 to only 71 million litres in 1998. This decline is partly due to the establishment of private dairies (there were 15 in 1999) which have taken over market shares from KCC. Since 1995 their joint intake, however, has declined to less than half of what KCC used to process, possibly due to a decline in milk production, and certainly to a

rapid increase in the amount of milk sold by farmers directly to the consumers. Therefore, although Tetra Pak has managed to get nearly all the new dairies as customers, their milk market has declined. During the 1990s they have pursued expansion of their market to include fruit juice producers and wine importers which in 1999 represented about ten percent of their total sales. The strategy of the company is to emphasise customer service, including both the technical service necessary to ensure smooth operation of the machinery, and marketing assistance to help customers expand existing markets and tap new ones. During the 1990s the company also expanded and reorganised its export market from very little to about ten percent of its sales. The expansion took it into nine East African countries, most of which are being developed for their long-term potential, rather than for immediate profits. Tetra Pak management has decided to group Tanzania and Uganda with Kenya because it sees all three countries as major markets and expects them to face similar problems in developing their private-sector dairy industries.

Timing of the export expansion

These cases indicate that the expansion of Kenya's export to the other East African countries since the mid-1980s has not been a uniform process, rather it has passed through a number of policy events which have influenced different industries differently and therefore also led to different responses.

Already during the colonial period Kenya, and especially Nairobi, played an important role as the main economic centre of East Africa, with a considerable export to the other East African countries. The three of the interviewed enterprises which were established during the 1930s were all established to serve not only the Kenyan, but the East African, market. But this came to a hold during the 1970s when Tanzania closed its borders, the Ugandan economy collapsed, Ethiopia socialised its economy, and the East African Community broke down. With introduction of structural adjustment policies and trade liberalisation in the neighbouring countries and the establishment of the Preferential Trade Agreement (PTA) in 1984, new opportunities were created for Kenyan export from the mid-1980s. Nevertheless, the incentive for Kenyan industries to enter the African export market was not very big. The home market continued to grow, and the main reason to export was to earn hard foreign currency, which could not be obtained by exporting to the neighbouring countries. Therefore exports only grew slowly before 1990. Of the seven interviewed enterprises, only Atlas Copco made a serious effort to enter the wider East African market from the mid-1980s.

However, in the early 1990s the situation changed. Kenya introduced a foreign currency retention scheme in April 1992 which allowed exporters to keep part of the foreign currencies they earned, and at the same time Tanzania and Uganda liberalised and devalued their currencies. This made it possible to earn hard currency by exporting to the neighbouring countries (although the devaluations also made it less profitable) and opened up for import of investment goods and production inputs which during the 1980s had been a major constraint in production. At the same time the expansion of the Kenyan market stopped thus urging more Kenyan enterprises to engage in the East African export market. Correspondingly many of the interviewed enterprises appear to have expanded their export activities during the early 1990s.

The next turning point is 1993/94 when Kenya itself devaluated and liberalised both its currency and the import of consumer goods. This led, on the one hand, to a contraction of the home market and, on the other hand, during the following years to a increased competition from imported second-hand clothes and relatively cheap industrial products not least from South Africa (where the trade blockade was lifted in 1994), a competition which many of the Kenyan industries had difficulties meeting.

The export and development strategies of the seven enterprises

The interviews with seven large Kenyan enterprises show some of the strategies they have been pursuing in order to overcome the crisis:

- Many of the enterprises increased their *efforts to expand on the East African market*, but in some cases with limited success. Our interviews suggest that Tetra Pak and Atlas Copco are making successful inroads into other African markets. Both firms follow similar strategies of accompanying their machinery sales with close customer contact, training, and follow-up service. Their success, however, is not reflected in the trade statistics because neither company produces its machinery in Kenya. What is exported from Kenya is primarily service. Bata has set up three wholesale depots and a retail shop in Tanzania in order to increase its market presence there. On the Ugandan market it has faced increased duties despite the COMESA agreements. East African Portland Cement and PanAfrican Paper appear to have done very little to increase their export which is already very limited. Underlying the reluctance of both companies to enter the export market may be the realisation that they would face stiff competition from lower cost producers. In Kenya, South African paper companies have been forced to use wholesalers for distribution. This, of course, raises their costs and selling prices. In other East African countries, however, Kenyan paper would have to compete head-on with lower cost South African paper. Samaki

exports almost all its products to Europe; it produces very little for the domestic market and has no export to other East African countries.

- One of the reasons why the Kenyan industries appear to have increasing difficulties meeting the competition both in the home and export markets is that they have mainly adopted *defensive strategies*. Thus PanAfrican Paper's main strategy seems to have been to lobby for reduced duties on oil and both PanAfrican Paper and Bata were very concerned about their competitors' evasion of duty payments on imports. Most of the enterprises appear only to have made limited efforts to cut costs mainly by rationalising more peripheral activities, such as Bata's reduction of the storage capacity from seven to one month and outsourcing of transport. These have become possible only after introduction of the structural adjustment policies. On the other hand, more radical restructuring of the production processes through specialisation and outsourcing, which much of the current development literature proposes, has in most cases not taken place. Thus neither Bata nor PanAfrican Paper which both produce a wide range of different products in order to serve a diversified but limited home market has reduced its product portfolio; nor has either firm outsourced any part of its production because they find the production environment too uncertain.

- Firms that *developed new products and/or upgraded quality* met with mixed success. Samaki obtained ISO 9002 certification and introduced the HACCP analysis system in order to upgrade the quality of its basic product and ensure continued access to the quality conscious European market. However, in the current situation, upgrading has not helped it because the European import ban has been put indiscriminantly on all East African fish producers. Moreover, the collapse of its main market left Samaki unable to carry through with its new product ideas. Tetra Pak, on the other hand, has benefited both from the fruit juice producers' response to South African imports and the dairy industry's successful introduction of yoghurt onto the Kenyan market. The example of fruit juice production is instructive, because it shows how imports can give rise to new domestic products that can, in turn, increase exports.

- Of enterprises which have carried out *more radical restructuring* is East African Portland Cement which in 1994-96 built a completely new capital intensive production system (with Japanese capital) in order to reduce costs. The new system, however, still does not operate optimally. Atlas Copco, which had already upgraded its staff during the 1980s, has during the 1990s computerised its operations and obtained an ISO 9002 certificate in 1998. Tetra Pak has during the 1990s been forced to develop completely new markets because its former sole customer, Kenya Cooperative Creameries contracted dramatically as a result of the liberalisation of the milk market. This has led Tetra Pak to develop its marketing activities in Kenya, and to

bring Tanzania and Uganda under the marketing manager in Kenya. The extent to which this has led to other changes in the organisation is not clear.

- On a global or regional scale some of the multinationals have *restructured and regionalised their organisations* with consequences for their Kenyan subsidiaries. Thus Atlas Copco Kenya has expanded its East African market to include a growing number countries. However, this regionalisation of Atlas Copco's distribution in East Africa does not appear to be a result of a general concern strategy, because it has not taken place in other parts of Africa where Atlas Copco has national offices, but seems rather to be a result of the efforts of the Kenyan management. Tetra Pak, which until the 1990s worked only with KCC in Kenya has during recent years more actively attempted to develop its East African market (especially Kenya, Tanzania and Uganda) through its Kenyan subsidiary. It is now considering establishing an African regional office in southern Africa to better coordinate the activities of its four African facilities. Johnson and Johnson has also regionalised its African activities, but with the result that it has closed the production in Kenya and now serves the Kenyan market through a distributor supplied from Zimbabwe and South Africa. On the other hand, the Bata Shoe Organisation which has factories in a number of African countries apparently has no plans to regionalise its activities, because conditions are still considered too unstable.

- Only two of the interviewed enterprises *procure production inputs from the other East African countries*, namely Bata which buys raw hide especially from Uganda, but also from Ethiopia and Somalia, and Samaki, which has fish processing plants in Tanzania, in order to secure raw materials. In the case of Samaki, partially processed fish imported from its own Tanzanian factory ensure a higher and more even level of production than would be possible if the firm had to rely exclusively on fish from the Kenyan part of the Lake. Utilising the two factories also enabled Samaki to satisfy export quality standards and thereby helped to increase Kenya's fish exports. Bata's imports of hides from Uganda are largely substituting for poor quality Kenyan hides. Their availability no doubt enables the company to produce somewhat more efficiently, because there is less waste, but there is no clear link to increased exports.

7 Conclusion

At a time when Kenya's traditional export to Europe has tended to stagnate, the country was able during the second half of the 1980s and especially the first half of the 1990s to expand manufacturing export to the African countries, especially Tanzania and Uganda, by taking

advantage of the creation of PTA in 1984 and the gradual liberalisation of the trade with its neighbours. By doing this Kenya has partly regained the position as economic centre for East Africa it had during the colonial and early post-colonial periods, before many of its neighbours closed their economies during the 1970s and the East African Community broke up in 1977.

The Kenyan expansion on the East African market, however, was based more on its location and the very low manufacturing capacity in the neighbouring countries than on efficiency of its own production (Bigsten and Kimuyu 1998, Bennell 1998). In fact it appears to have taken place with little innovation and productivity growth in the Kenyan industries (Ameripour 1999, Mwamadzingo 1997). Therefore they were generally very ill prepared to meet the competition when Kenya liberalised its currency and trade with the world market in 1993/94. This led to an increased import of cheaper goods from Asia and, when the trade blockade was lifted in 1994, especially from South Africa.

This increased import from South Africa and Asia has led to increased competition not only on Kenya's home market, but even more so on its African markets. This new competition may in the coming years make it increasingly difficult to continue expanding its export to Tanzania and Uganda.

Kenya's African export seems to a large extent to have been based on protection from non-African imports created by the very inefficient harbours and inland transport systems in East Africa. For instance, the African Development Bank (1999) report that transport on average in 1997 took 20 days from Europe to Mombasa but 40 days from Mombasa to Kampala, not primarily due to the poor physical infrastructure, but to an extremely inefficient freight handling in the harbour and at the border crossing points. This results in very high costs which are clearly a serious disadvantage for Kenyan export to the world market, but on the other hand offer considerable protection from international imports on its East African export market (The African Development Bank [1999] says that while the protection from import duties in Uganda is 12.5% it is 30% from transport costs). However, increasing South African investments in the railways in Southern and Eastern Africa may rapidly erode that protection. In 1999 the South African railroad company, Spoornet, opened a transfer station in Kidatu in Tanzania, making possible the transfer of freight between the railnets of southern and eastern Africa which have different gauges (Pedersen 1999). Although there are undoubtedly still many problems to be solved this will at least in principle for the first time make it possible for South African exporters to run freight trains through to the Tanzanian and Ugandan markets and thus bypass the inefficient East African harbours.

One of Kenya's problems is that it imports much less from its neighbours than it exports to them. This was a major reason for the break up of the East African Community in 1977, and appears to repeat itself now. In our small sample, only two enterprises import fish and raw hide from the neighbouring countries, and in general it seems doubtful whether Kenyan industries at present are efficient enough to process imported raw materials from its neighbours for the world market.

Unless Kenyan industries are able to improve their efficiency, Kenya is unlikely to be able to maintain its present markets in East Africa. However, neither the mostly defensive strategies of Kenyan enterprises nor Government's weak commitment to industrial development appear to support industrial upgrading. The low levels of machinery imports in the 1990s suggest that the needed upgrading is not happening.

The recent decision of Tanzania to remain in SADCC rather than develop the East African Community, which in reality appears to reflect a preference for imports from South Africa rather than from Kenya (though South Africa does not buy much in Tanzania either), is likely to erode Kenya's African export further.

Finally, the results of this analysis point to several problems that can only be solved by government. Kenya's crumbling infrastructure, the persistence of illegal imports, and the general uncertainty of the macro-economic environment create difficulties for industry of all types. Continued survival in certain global markets, such as fish and perhaps food products generally, requires government commitment to developing and enforcing standards. Unless these issues are addressed by government, they may well lead to a decrease in industrial production rather than the industrial transformation that is espoused in recent policy documents.

Notes

1. The argument has recently been formalised by using measures of trade correspondence to estimate the potential for increased intra-African trade (Oramah and Abou-Lehaf 1999). The trouble with such an approach is that it relies on the existing export and import structures of African countries rather than also examining what countries produce that might be imported by others.
2. Yeats (1999: 24), using IMF direction of trade statistics, also shows that intra-African trade rose by approximately one-quarter between 1990 and 1995, though his estimates for the proportion of intra-African trade in total subSaharan exports are higher than ours (9.8% in 1990 and 12.1% in 1995).

3. The real trade between neighbouring countries is likely to be much larger than indicated by official trade statistics due to unofficial and unrecorded border trade. Ackello-Ogutú and Echessah (1997) surveyed the unrecorded cross-border trade between Kenya and Uganda for the period August 1994 to July 1995. They found that the unrecorded trade added 60% to recorded trade in 1994, and this may in itself be an underestimation as the survey covered only daytime traffic at the most important border crossings.

Recorded and unrecorded trade between Kenya and Uganda, Millions of US\$			
	Exports to Uganda	Imports from Uganda	Total
Recorded trade, 1994	242.8	41.0	246.9
Unrecorded trade, Aug. 1994-July 1995	84.3	62.1	146.4
Total	327.1	66.2	393.3

4. Including unofficial trade changes the Kenya-Uganda balance. While it remains tipped toward Kenya, it is much more equal than the official statistics suggest (Ackello-Ogutú 1997). We do not have unofficial figures for Kenya-Tanzania trade, but they are likely to be similar.

Appendix

Expanded Summary of Company Cases

JOHNSON & JOHNSON

Johnson & Johnson (Kenya) Ltd is a subsidiary of Johnson & Johnson, the large US-based pharmaceutical company. Internationally Johnson & Johnson's approximately 95,800 employees are engaged in producing a wide range of products related to medicine and hygiene.

The company began operations in Kenya in 1969 to serve the East African market. Between 1969 and 1996, Johnson & Johnson (Kenya) manufactured baby products, sanitary towels, and other health-related products. The company employed approximately 80 workers. The technology and most inputs were imported, though packaging was sourced locally.

In the mid 1990s the company began to regionalise internationally, reducing the number of production sites and reorganising production to allow for greater specialisation. The decision was made to cease production in Kenya and to source J&J products for the Kenyan market from other places, mainly Zimbabwe and South Africa. The Kenyan plant was apparently targeted for closure because of its small size and the fact that the company had a smaller investment there.

From 1996 until 1999, J&J continued to operate a distribution centre from the old plant in Nairobi. In June 1999, however, they turned sales and distribution over to an recently formed Kenyan marketing firm, Direct Sales and Distribution (DSD). J&J's only remaining presence in Kenya is through a country manager who collaborates with DSD on marketing J&J products.

BATA SHOE COMPANY (KENY) LTD.

Bata Shoe Company (Kenya) is a subsidiary of the Toronto based multinational *Bata Shoe Organisation*, which is the world's largest manufacturer and retailer of footwear, employing more than 57,000 people in 60 countries, including 13 African mostly in Eastern and Southern Africa.

Bata Kenya was established in Mombasa in 1935 to serve the East African market primarily with rubber and canvas shoes, but moved in the early 1940s to the present location in Limuru, where an integrated factory was built, comprising a tannery, a rubber plant and a shoe factory and also a clinic and a primary school for the employees. Bata still has a fully integrated production of the

full line of shoes for the whole family, and is the largest shoe manufacturer in Kenya. They sell about 7½ mill. pair of shoes in Kenya, corresponding to approximately 50% of the Kenyan market (apart from the second-hand market), and about 1 mill. pairs in the other East African countries, mostly Tanzania and Uganda, but also others. Though most of their leather production goes into their shoe production, they also sell some tanned leather, mostly on the export market.

In Kenya manufacturers are not allowed to operate their own retail shops. All Bata shops therefore have traditionally been franchises. However, Bata has recently got an exemption from this and Bata now operates 20 shops of their own in Kenya. They also operate 13 wholesale depots serving other small and large retailers and about 2000 handdrawn trolleys which are lent out to small scale shoe traders. Approximately 35% of the distribution is on their own hands.

Due to the fully integrated production Bata only buys raw materials, especially raw hides. Hides are both bought in Kenya and imported, especially from Uganda, but also from for instance Ethiopia and Somalia. The reasons for the imports is partly that Kenyan raw hides are of a generally poor quality and partly that Kenya, in contrast to many other developing countries, still allows export of its raw hide.

Bata Kenya has from its establishment served the Kenyan mass market for footwear. Until the East African community broke down in 1977 they also had some export to Tanzania and Uganda. During the 1980s this loss of export market was made up for by an expanding Kenyan shoe market. However, during the early 1990s the Kenyan shoe market stagnated and in 1995 it dropped by one third, and has since then continued to go down.

This dramatic drop in the Kenyan shoe market is primarily caused by a rapid increase in the import of second-hand shoes, which apparently to a large extent are smuggled in without paying duties. Bata's director estimated that three containers with second-hand shoes arrive in Kenya every day, each with 12,-15,000 pair of shoes, corresponding to approximately 12 mill. pair of shoes a year or more than half the total Kenyan production. The import liberalisation has also led to an increased import of new shoes, but at a much smaller scale, and while Bata says they are perfectly able to compete with the imported new shoes, they cannot compete with the second-hand shoes. On the other hand, Bata is doing better than most of the smaller producers and shoe repairers, because it especially is the lower end of the market which is hit. Since 1994 Bata's sales have gone down from 9½ million to 7½ million pairs of shoes, but at the same time their export has increased from very little to about a million pairs. They have during the last year established three wholesale depots and a retail shop in Tanzania.

(According to the Kenya Statistical Abstract 1996 the foot wear export should have increased from ½-1 million pairs in 1991 to about 20 million pairs in 1993 where it has stayed until 1998, except for an unrealistically high 78 million in 1995. These data are difficult to reconcile with Bata's.).

Due to the increased competition from second-hand shoes they have during the last 8 months been forced to reduce their employment from 2,300 to 1,650 employees (these include the people employed in Bata's own retail stores).

On the other hand the trade liberalisation appears only to have led to a limited rationalisation and restructuring of Bata's production. They have since liberalisation in 1994 been able to reduce their storage from 7 month consumption to only one. They have sold their truck and are now outsourcing the transport. But there has been no attempts to specialise. They are still producing everything from leather, rubber and plastic to the finished shoe, and also the whole range of shoes.

In Europe and the US Bata factories are generally much more specialized than in Africa. According to Bata Kenya's director conditions in Kenya are generally too unstable and uncertain (e.g. the status of the different African trade agreements) to carry out an intercountry restructuring. They have been doing some subcontracts for other large multinational footwear producers, but have pulled out again.

SAMAKI INDUSTRIES

Samaki Industries is among the largest of Kenya's industrial fish processors. The firm traces its roots to a small fish retailing business begun by a Kenyan Asian family in 1933. The present Samaki Industries is a private company, incorporated in 1965 in Nairobi. It has three plants: the largest and oldest is in Nairobi and in 1997 had 300 employees, the second in Musoma, Tanzania began in 1992, and the third, which is not yet operational, is in Kisumu, in the western part of Kenya. The company produces frozen frozen fillets of Nile perch, mainly for the European market.

The company's main input -- raw fish -- is sourced from Lake Victoria. Interviews in the industry in 1997 pointed to inadequate fish supplies as the main cause of the low capacity utilisation observed in all processing firms (Mitullah 1999). Another, perhaps more important factor, is the reluctance of the processors, including Samaki, to operate night shifts.

The fish industry in Kenya has had a roller coaster history since 1997, largely because of difficulty in meeting quality standards set by the European Union. Although some companies export to other countries, including the US, Israel, Japan, and Australia, the European market is the largest and the EU has taken the lead in setting and enforcing standards. Between 1997 and the present the EU has imposed bans on East African fresh water fish three times. The first was in early 1997 and lasted about three months. It was prompted by the death of at least one person in Spain after eating Nile perch imported from Uganda. As a result of this ban, the industry and the authorities of the three East African countries worked together to raise standards both in the factories and at the supply beaches (see Mitullah 1999 and McCormick 1999 for more details). The second ban came in early 1998 as a result of a cholera scare in Kenya following the El Nino rains. There were no actual problems with the fish, and the ban was lifted fairly quickly. The third ban was imposed in April 1999 after stories of poisoned fish appeared in the Kenyan press. The root of the problem appears to be that chemicals being used experimentally by Uganda to control the water hyacinth fell into the wrong hands and were applied incorrectly. The EU inspectors and the three governments have again met over the problem, but as of early October 1999, the ban remained in force.

According to a Samaki official, standards, especially those set by the EU, have become the industry's main driving force. The EU published its first quality directives in the early 1990s, but few firms took them seriously before the first ban. Samaki was ahead of most. By combining partial processing in its Tanzania plant with final processing in Nairobi, it was able to satisfy EU hygiene requirements. By 1997 Samaki had achieved ISO 9002 certification and was following the HACCP (Hazard Analysis Critical Control Point) analysis system. It was also nearly ready to open its Kisumu plant, which had been designed around EU quality specifications. This, however, did not protect them from the effects of the bans which were imposed on East African fresh water fish, regardless of country or factory of origin.

Before the ban Samaki considered introducing new products, such as fish fingers, fish meal, or fish leather, but that is not part of the current plans. All would require new investment, which under present circumstances, would be difficult to finance. Furthermore, all depend for raw materials on the availability of byproducts from the filleting operation, which is at a standstill.

By October 1999 the company had laid off 80% of its workforce and was doing minimal processing for the Kenyan market. Although it was investigating alternative markets, the official interviewed felt that this was, at best, a stopgap measure. In the long run, he believes, all countries will expect conformity to standards similar to those of the EU. Even now, many

countries look for EU acceptance as a sign of quality. If Kenya wants to remain a fish exporter, it will have to ensure that its fishing, transport, and processing systems conform to the highest quality standards.

EAST AFRICAN PORTLAND CEMENT

East African Portland Cement (EAPC) is one of two cement producers in Kenya. The company makes a single product, bagged cement, for the local market. Its 1998 production of approximately 374,000 tonnes represented about one quarter of domestic cement requirements. Its competitor, Bamburi Cement, is more export oriented, selling both to neighbouring African countries and in the wider Indian Ocean region. Imports of cement, mostly from Indonesia, represent less than 1% of annual consumption (Kenya 1999).

EAPC began in 1933 as a partnership between the three main cement distributors in East Africa and two British manufacturers for final processing of imported clinker (Swainson 1980). The present manufacturing plant was established in 1958 in Athi River, near Nairobi, using 'wet process' technology. The Kenya Government bought 51% of EAPC shareholdings in 1971. The Government has retained its controlling interest in the company. In 1994 the company obtained an exemption from the State Corporations Act in order to have more autonomy and flexibility in decision-making. EAPC is among those designated for privatisation and is listed on the Nairobi Stock Exchange.

The main production inputs are machinery, limestone, clay, iron ore, fuel, and paper bags. Apart from machinery, which is imported, all of the inputs are local. It is interesting to note that the bags are manufactured in Mombasa, using paper made by Pan Paper.

By the mid 1980s, with price controls still in effect, the company could no longer operate its fuel-intensive wet process technology profitably and was forced to close down. In 1994 Kenya received a grant from the Japanese government to rehabilitate the factory and change to dry process technology. Although the rehabilitation was completed in 1996, the plant is only slowly moving towards its rated capacity of 550,000 tonnes per year.

The change in technology was designed to make the company more competitive, but it remains a high-cost producer. Cement in Kenya sells at US\$80 per tonne. Compared with the price of Indonesian cement in Kenya (US\$45) or the production costs of Thai cement (US\$12-15), this is extremely high.¹ No doubt part of the reason for this is the factory's underutilised capacity. A second reason, according to EAPC, is the high cost of fuel in Kenya. A third may be transport

costs, which give an automatic advantage to local producers. EAPC's primary market is Nairobi, which receives 60% of production, and up-country destinations which are expensive to reach from the port of Mombasa. Competition from imports has therefore been minimal to date, but this could change. Tanzania's three cement factories have recently been bought by multinationals. While this undoubtedly closes off potential export opportunities for Kenyan cement, it is unclear whether these factories also pose an import threat. At present transport between the two closest factories and EAPC's market area is difficult and expensive. Improvements in infrastructure could, however, change this and turn Kenya into an attractive market for Tanzanian producers.

PANAFRICAN PAPER MILLS (E.A.) LTD.

Panafrican Paper was established in 1972 and started two paper mills (one for brown and one for bleached paper) in Webuye in 1974. It is now owned jointly by Investment Finance Corporation (Kenyan Government) and the Indian Birla Group of Industries, a large Indian multinational (there are also smaller investors involved such as Barclays and ICDC).

The Panafrican Paper is the only full scale paper mill in Kenya, but there are smaller mills recycling waste paper, mostly to toilet paper but also to cheap newsprint and wrapping paper, in Eldoret, Kisumu, Thika and three in Nairobi. There is also a full scale mill in Tanzania with an annual capacity of 60,000 tonnes per year, which however often does not operate.

The PanAfrican Paper Mills started with an annual capacity of 45,000 tonnes, but have since then gradually expanded the capacity to 175,000 tonnes, of which however only half is used. In 1996/97 they produced 86,000 tonnes of which 75,000 tonnes were sold in Kenya and 11,000 tonnes exported, mostly to Uganda, but also some to Tanzania. The total Kenyan consumption of paper is about 150,000 tonnes, but increasing especially due to the expanding packaging industry.

The mills were originally built by a Canadian company to international environmental standard, with recycling of the water and use of residuals as fuels in the production process, but it is doubtful whether they live up to current standards. Access to wood is no constraint. They use state forests against a fee and replant two trees for every one they fell. Power represents 25% of all production costs, partly because they have to buy fuel oil at a price which is three times larger than their competitors pay. Until a few years ago they employed 1700 people (1200 in Webuye, 4-500 in the forest and 30 in Nairobi). After a conflict in 1998 they are now down to 15-1600, but wages represent a negligible cost. However, their costs are generally high because their plant is small by international standards, at the same time as they have to live with very high interest

rates (where the foreign paper companies can offer buyers credit at 6% Panafrican Paper has to borrow at 25%).

Panafrican Paper produces a wide range of products consumed at the Kenyan market, but after liberalisation of the Kenyan market (the import duty on paper decreased from 46% to 20%) they have met an increasing competition from South Africa, Finland, Sweden, Indonesia, Korea and others, which has force them to reduce their prices by 25-30% on average.

Panafrican Paper also loses market shares because Kenyan publishers increasingly get their publications published in e.g. Mauritius.

They have also met with increasing difficulties on the export market. Before liberalisation they exported to e.g. Egypt, Sudan, Sri Lanka and Iran on the basis of bilateral trade agreements, while they are not competitive on the liberalised markets.

If nothing changes their production will definitely decline. They hope, and lobby politically, for a reduced duty on fuel oil (which IMF is against). But apparently they are not considering to specialise on fewer product lines, but find that “they have to produce what the Kenyan customers demand”.

ATLAS COPCO KENYA LTD.

Atlas Copco Kenya is private limited company incorporated in Kenya in 1936, but it is also part of the Atlas Copco group a large Swedish multinational producing compressors and generators for construction, mining and industrial equipment. Atlas Copco Kenya functions as a sales and service outlet for Atlas Copco in Kenya and East Africa, but has never had any production. They now serve markets in Ethiopia, Eritrea, Somalia, Djibuti, Uganda, Tanzania, Sudan, Mauritius, Seyshelles, Reunion, and partly northern Congo from Nairobi. They have 32 employees in Kenya (approx. a third in sales, a third in service and a third in administration and logistics), but are also responsible for the training of about 50 dedicated to service Atlas Copco equipment, but employed by trading agents in the other East African countries.

Atlas Copco Kenya is operated as a local profit centre and also borrows from local banks. They have recently moved into a new building financed by local loans.

When Atlas Copco Kenya was established in 1936 it served East Africa. However, when Tanzania, Uganda and Ethiopia (which was a major market) during the 1970s nationalised and

the East African Community broke down in 1977 they were forced to concentrate on the Kenyan market, which, however, during the 1980s was expanding.

This expansion on the Kenyan market coincided with a major restructuring and upgrading of Atlas Copco's staff. Until the early 1980s they had a staff of people who had been with them for a long time, but had a limited education. Many of these were retired during the early 1980s and substituted by young people with university education or at least national diplomas, which are more useful because they can perform many different tasks. This process of staff upgrading is part of a strategy not just to sell Atlas Copco's products, but through servicing guarantee that they are used optimally, and to develop long-term relationships with the customers. Atlas Copco Kenya was awarded ISO 9002 certification in 1998.

During the 1990s development in Kenya has been slower (for political reasons), but they have instead been able to expand their activities to more and more countries in the East African region. This regionalisation of AtlasCopco's market which has taken place in East Africa has not taken place in other parts of Africa. In Southern Africa there are still Atlas Copco offices in South Africa, Zimbabwe, Zambia and Namibia.

TETRA PAK

Tetra Pak Kenya is a branch of a privately owned firm based in Sweden, which has production and marketing facilities in every part of the world. The company offers comprehensive processing, packaging and distribution systems to producers of liquid foods. Nearly 8,000 Tetra Pak packaging machines and 13,000 processing units are in operation worldwide, and the company has over 18,000 employees. The company emphasises service, both the technical service necessary to ensure smooth operation of the machinery, and marketing assistance to help customers expand existing markets and tap new ones.

The company's original product, the Tetra Pak classic, consists of a tube of plastic coated paper, that can be filled and sealed in a continuous process that takes place in a single machine that both forms and fills the packages. The product line has grown so that Tetra Pak now offers eleven different packaging systems. Processing equipment includes separators, heat exchangers, homogenisers, evaporators, aseptic processing systems and flow equipment. Both new and second-hand equipment is available. The packaging itself ranges from the original plastic coated cartons to aseptic cartons and plastic bottles. Distribution equipment includes conveyors, tray packers, and film wrappers.

Tetra Pak in Kenya manufactures coated paper cartons for milk, fruit juices, and, most recently, wine. The company's main inputs are machinery, paper, polyethylene for coating, and aluminium foil. The company has always sourced its machinery from Tetra Pak assemblers in various parts of the world. Nearly all of its paper requirements can be met locally. Aluminium foil and polyethylene are both imported.

Tetra Pak came to Kenya in 1956 as part of a major upgrading of Kenya Cooperative Creameries (KCC), financed by Scandinavian development aid. The Kenya facility was the company's first investment outside of Scandinavia. For nearly thirty years KCC was Tetra Pak's main customer, accounting for over 98% of its market.

Liberalisation has brought major changes to Tetra Pak's customer base and operations in Kenya. It has also increased the attractiveness of the export market. In Kenya, KCC's virtual monopoly on the dairy industry began to dissolve in the early 1990s, until by 1999 there were 15 dairy firms using one or more Tetra Pak packaging systems. Despite the proliferation of firms, however, the overall size of the market for processed fresh milk has changed very little. Recent developments in some of the dairies, particularly the addition of facilities for processing long-life milk, should result in higher production and, therefore, an expansion in Tetra Pak's market. In addition, new markets in fruit juices and wines have also begun to emerge, though these still account for less than 10% of Tetra Pak's Kenya sales.

Exports constitute 10% of sales, up from almost zero in 1990. The twelve countries currently on the export list fall into three broad groupings. Three island economies -- Mauritius, Seychelles, and Madagascar -- are Tetra Pak's oldest export markets. They have few dairy firms and stable markets. Another group of countries is expected to have potential in the long-run, but probably will show little growth in the immediate future. Burundi, Eritrea, Somalia, Ethiopia, Sudan, Malawi, and Djibouti fall into this category. The third and, in the view of Tetra Pak management, most promising group consists of Tanzania and Uganda. Like Kenya, these two countries are in the process of developing a private-sector dairy industry.

Tetra Pak's has developed a strategy for taking advantage of the opportunities created by liberalisation. The basic thrust of this strategy is the development of a close and multi-faceted working relationship with each customer. These relationships go beyond the training and technical assistance needed to ensure smooth working of the processing and packaging technology to include credit facilities, design help, and marketing assistance. To facilitate these relationships, the company is reorganising both its Kenyan operations and its African operations generally. The Kenyan reorganisation involves bringing Kenya, Uganda, and Tanzania together

under one manager instead of treating Uganda and Tanzania as part of the export market. Tetra Pak is also attempting to provide for greater coordination among its four African regions by establishing one of them -- probably South Africa -- as a regional coordination office.

Note

1. The Indonesian price is based on estimates provided by EAPC. The source of the Thai price is *The Economist*, 19 June 1999).

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